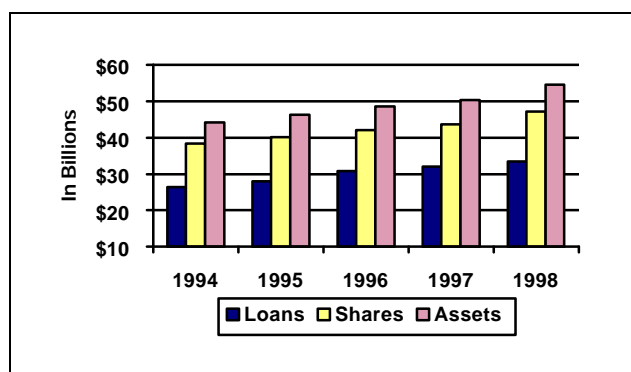


Region II State of the Region Report

December 31, 1998

Introduction

This report summarizes financial trends for the 1,686 federally-insured credit unions located in Region II (Capital). The Capital Region supervises credit unions in the District of Columbia, Maryland, New Jersey, Pennsylvania, Delaware, and Virginia. The region's credit unions account for \$54.5 billion in assets, \$47.1 in shares, and \$33.5 billion in loans.



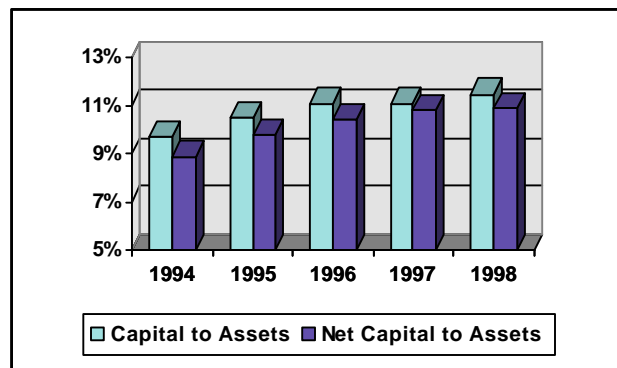
Region II Financial Highlights

- ◆ Assets increased 8.1 percent during 1998. Region II credit unions now represent over \$54.4 billion in total assets.
- ◆ Loans increased 4.7 percent. Total loans increased \$1.51 billion and were 71.0 percent of total shares.
- ◆ Shares now exceed \$47.1 billion, an increase of 7.8 percent for the year.
- ◆ Capital gained 8.4 percent to top \$5.9 billion, representing 11.5 percent of total assets. Capital growth kept pace with asset growth.
- ◆ Delinquent loans declined to .9 percent of total loans after being at 1 percent for three consecutive years.

- ◆ Net charge offs remained at 0.7 percent of average loans during 1998. The Allowance for Loan Losses increased by 5.2 percent during this time.
- ◆ The Return on Average Assets ratio declined from 1.1 percent for 1996 to 1.0 percent for 1997 and .9 percent for 1998.

Capital

The graph below presents the region's capital and net capital ratios for the last five years. The December 1998 capital and net capital ratios, at 11.5 and 10.9 percent, respectively, are identical to the ratios reported for the entire credit union industry.



As we prepare for compliance with the capital requirement of the Credit Union Membership Access Act, we have analyzed the capital percentages in Region II credit unions. As of December 31, 1998, the majority of credit unions, 91.5 percent, are well capitalized. Only 8.5 percent of credit unions (144 credit unions) were found to have net capital ratios of less than 7.0 percent. Half of these credit unions were considered to be adequately capitalized with net capital of at least 6 percent. An additional 72 credit unions had net capital ratios of less

than 4 percent. The distribution is shown below.

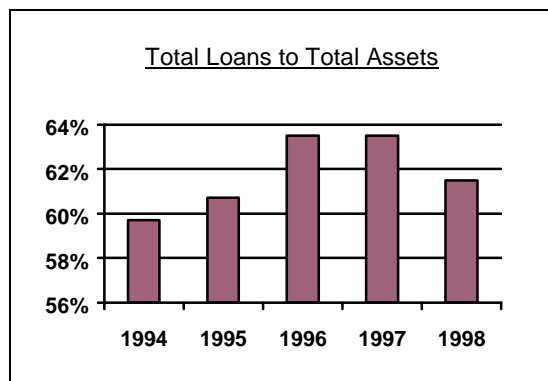
Distribution of Credit Unions by Net Capital as of December 31, 1998

Net Capital Ratio	No. of Cus	%of tot.
>7%	1542	91.5%
6-7%	72	4.3%
4-6%	44	2.6%
2-4%	17	1.0%
<2%	11	.6%

Lending

Total loans increased more rapidly during 1998 than 1997, growing 4.7 percent compared to 3.8 percent in 1997.

Reflecting national trends, Region II credit unions saw the strongest growth in used car and real estate lending while new car volume fell for the second year. The ratio of total loans to total assets declined to 61.5 percent after having risen to 63.5 percent for two years. The graph on the following page depicts this trend.



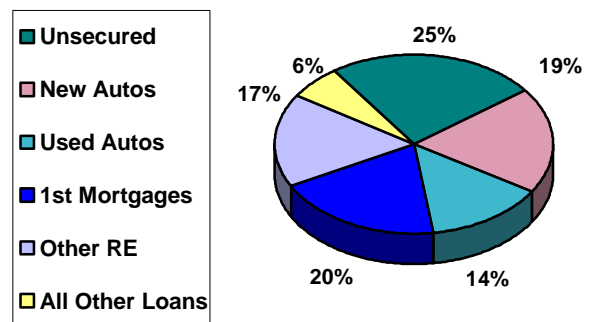
The total loan portfolio for Region II credit unions reached nearly \$33.5 billion as of December 31, 1998. Real estate lending surpassed \$12.2 billion and accounts for nearly 36.5 percent of the total loan portfolio. This is a 1.5 percent increase from December 1997.

Fixed-rate first mortgage loans increased 24.3 percent in 1998 to 14.6 percent of all loans. Fixed rate mortgage loans account for 70.8 percent of all mortgage loans in Region II credit unions. The increasing interest rate and liquidity risks these loans present are of concern and will be addressed through additional asset/liability management training during 1999.

The trend in automobile lending continued to shift from new to used auto loans in 1998. While used car loans increased 14.4 percent during the year, new car loans declined 4.1 percent.

The following chart illustrates the distribution of Region II credit unions' loans by type within the total portfolio as of December 31, 1998:

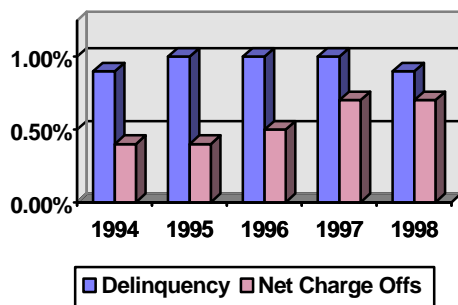
Loan Portfolio Distribution



Delinquency & Net Charge Off Trends

The region's credit unions continue to effectively manage the risks associated with lending. The overall delinquency ratio declined to .09 percent after having been a constant 1.0 percent since December 1995. The net charge off to average assets ratio, remained at .7 percent for the second consecutive year.

The following graph illustrates these trends.

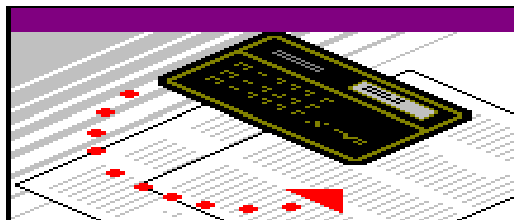


Region II total delinquency and loan losses trends mirror the national trends.

Credit Card Delinquency

Data on credit card delinquency and charge offs was captured for the first time this year. Delinquent credit card loans account for 14.7 percent of total delinquency, but credit card loans equal only 10.6 percent of total loans in Region II credit unions. The ratio of delinquent credit card loans to total credit card loans in Region II is 1.27 percent. Nationally, the ratio of delinquent credit card loans to total credit card loans is 1.56 percent.

Net credit card loan losses in 1998 exceeded the amount of credit card delinquent loans as of December 31, 1998 both in Region II and nationally. 1998 net credit card losses in Region II were 142 percent of year-end delinquency compared to 156 percent nationally.



Bankruptcies

Nearly 52 percent of the 1998 Region II loan losses were the result of member bankruptcies. Nationally, 47.3 percent of charge-offs were attributed to bankruptcy.

Region II credit unions saw a 10.7 percent decrease in the amount of loans outstanding subject to bankruptcy at the end of 1998 while nationally the amount of bankruptcy related loans declined 12.4 percent from 1997 figures.

The number of members filing for bankruptcy continued to rise in Region II credit unions, but at a much slow rate than in 1997. The number of members filing bankruptcy increased 4.2 percent in 1998, compared to 28.2 percent in 1997. The number of bankruptcy filings for the past five years are presented in the following table.

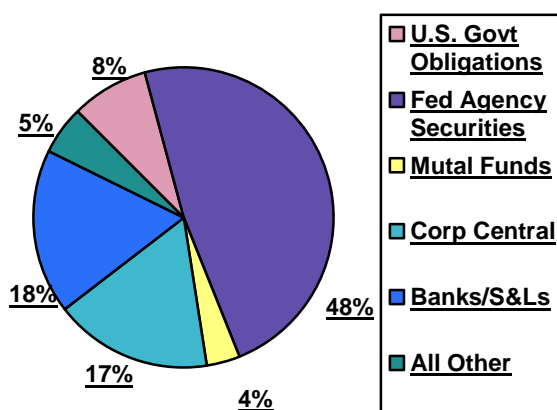
Five Year Bankruptcy Filings

<u>Year</u>	<u>National</u>	<u>Regional</u>
1994	141,334	18,570
1995	164,502	24,724
1996	202,611	28,475
1997	253,579	36,503
1998	243,953	38,035

Investments

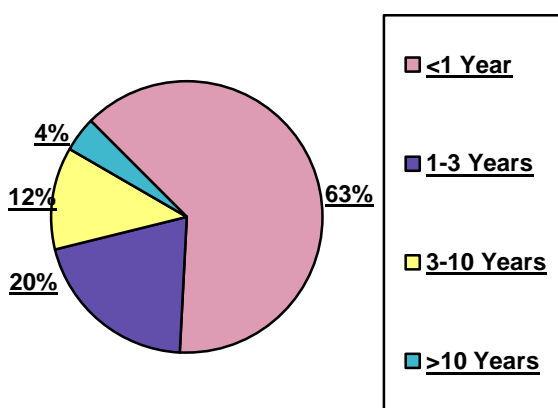
Credit union investment portfolios grew by 14.1 percent in 1998, outpacing the 1997 growth of 2.9 percent. Nationally, investments grew even more rapidly, increasing 21.3 percent in 1998. The distribution of Region II credit unions' investment holdings are shown in the graph on the following page.

Investment Portfolio Distribution

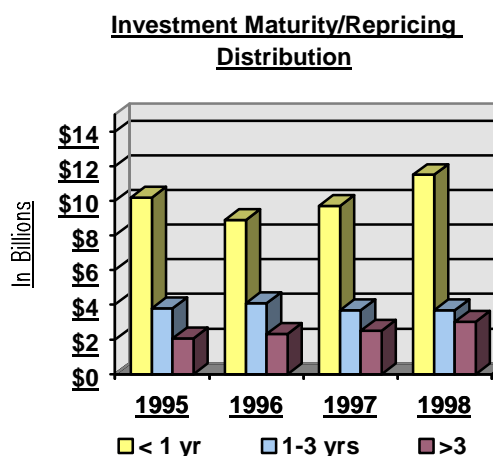


Investments with maturities in excess of 3 years grew 20.8 percent, increasing from 15.7 percent to 16.6 percent of total investments. More than 44.8 percent of the investments with maturities in excess of 3 years are classified as available for sale. The following graph shows the maturity distribution of the investment portfolio as of December 31, 1998.

Investment Maturity Distribution



The following graph illustrates the trends in maturity/repricing distribution for Region II credit unions' investments:



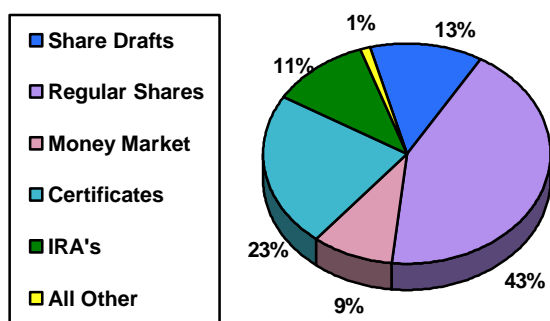
The total of investments with maturities in excess of 3 years, (excluding NCUSIF capitalization deposits), plus fixed-rate real estate loans are approximately 20.7 percent of assets of Region II credit unions. This compares with the total of 18.9 percent as of December 1997. These assets appear to be subject to significant interest rate risk in a rising interest rate environment. These trends reinforce the need for an extensive asset/liability management (ALM) review in more credit unions and the need to ensure examiners are trained to recognize problems with ALM.

Credit unions decreased their mid-term investment holdings (1-3 year maturity) .5 percent in 1998 after a decline of 12.3 percent during 1997. Credit unions' short-term investment portfolios (maturity less than 1 year) increased by 17.9 percent. Credit unions continue to maintain over 83 percent of their holdings in investments maturing or repricing in less than 3 years.

Savings

Total shares grew 7.8 percent in 1998, and now total \$47.1 billion. Significant increases occurred in money market shares (up 19.2 percent) and share drafts (up 16.0 percent). Other account types grew modestly. Non-member accounts grew 16.2 percent. Only 12 percent of the non-member shares are in low income credit unions. The graph below provides the share distribution of Region II credit unions at December 31, 1998:

Share Distribution



Income Trends

Region II credit unions generated solid earnings for 1998, in line with national trends. For the year, gross income rose 4.6 percent to \$4.2 billion, operating expenses increased 8.2 percent to \$1.9 billion, and the cost of funds rose nearly 2.8 percent to \$1.86 billion.

Net income dropped for the second year. The decrease of 2.4 percent to \$495 million appears to be due to increases in employee compensation, office operations expense, and loan servicing expenses. These costs increased 9.1 percent during 1998. Region II credit unions return on average assets of .9 percent, mirrors national results.

Gross income also declined due to the historically low interest rates experienced in 1998.

The earnings ratio trends for Region II credit unions over the past four years are presented in the following table:

*	1995	1996	1997	1998
Gross Income	8.0	8.2	8.2	8.1
Cost of Funds	3.6	3.6	3.7	3.5
Net Margin	4.4	4.6	4.5	4.5
Operating Expenses	2.9	3.0	3.0	3.1
Provision for Loan Loss Expense	0.3	0.4	0.5	0.5
Return on Average Assets	1.2	1.2	1.0	.9

- All ratios are calculated as a percentage of average assets.

Problem Credit Unions

Key trends indicate Region II federally - insured credit unions are financially sound. A further indication of this is the decrease in the number of problem

credit unions (CAMEL code 4/5). As of December 31, 1998, 54 federally insured credit unions with assets of \$463.6 million were rated as problem

credit unions. This number reflects a significant improvement since December 1997 when the number of problem federally-insured credit unions was 70. There were 65 problem credit unions at year-end 1996, and 49 at the end of 1995. However, the total assets of problems credit unions increased by \$181.2 million since December 1997. Total shares for problem credit unions now total \$424.8 million.

Five credit unions with assets in excess of \$25 million entered the Camel "4" rating during the year. Aggressive supervision is being provided to these credit unions and progress is being achieved. Furthermore, 160 federally-insured credit unions reported an operating loss at year-end 1998, including 43 repeat losers. This number increased by 21 over those credit unions reporting operating losses in 1997.

Even though Y2K assessments are a priority for 1999, Region II examiners continue to aggressively identify financial and operational weaknesses and assign CAMEL ratings according to risk. This leads to earlier detection of problem credit unions and allows the region to budget for appropriate supervision throughout the year to more quickly resolve these troubled credit unions.

As of December 31, 1998, Region II had 4 credit unions operating under special assistance provided for in Section 208 of the Federal Credit Union Act (Act), and 3 credit unions are being supervised under the Act's conservatorship provision.

Through regular supervision contacts and examinations, we intend to assist these credit unions in improving operations and regaining financial stability.

CREDIT UNIONS WITH ASSETS \$5 MILLION OR LESS

Region II has 914 federally insured (FCU and FISCUS) credit unions with assets of \$5 million or less as of December 31, 1998. This number is 54.2 percent of the Region's credit unions. However, the total assets of this group is only 2.7 percent of the Region's total assets. Assets of these credit unions increased 2.4 percent compared 8.1 percent increase in all Region II credit unions. As indicated in the following chart, shares and assets grew in 1998, but loans declined slightly.



Of these smaller credit unions, 359 (39.3 percent) reported decreases in assets with 44 of them shrinking by more than 15 percent since December 31, 1997. Conversely, seventy two

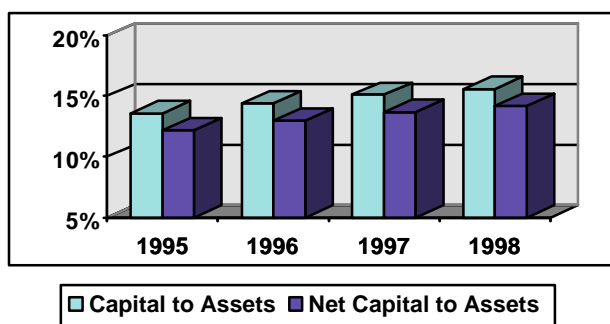
credit unions, with assets under \$5 million, grew more than 15 percent in 1998. Three credit unions showed increases in excess of 100 percent.

As expected the credit unions with declining assets also suffered decreasing share balances. Three hundred eighty nine credit unions experienced share decreases, with 100 of them losing more than 10 percent of the December 1997 shares.

Of credit unions with asset of less than \$5 million, 95.7 percent were rated a CAMEL "3" or better. Of those credit unions with decreasing assets, 94.4 percent were rated CAMEL "3" or better.

Capital

The following graph presents the capital and net capital to assets trends for credit unions with assets \$5 million and less. Capital and net capital ratios are higher for these credit unions than those of all the Region's credit unions.



As of December 31, 1998, only 7.7 percent (70 credit unions) with assets under \$5 million were found to have net capital ratios of less than 7.0 percent. The following table show the distribution

of these credit unions by net capital ratios.

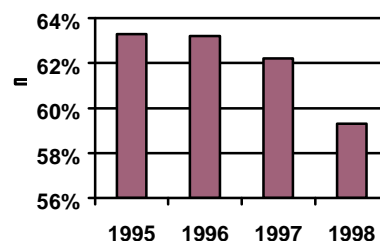
Distribution of Small Credit Unions by Net Capital as of December 31, 1998

Net Capital Ratio	No. of Cus	%
>7%	844	92.3%
6-7%	25	2.7%
4-6%	23	2.5%
2-4%	13	1.4%
<2%	9	1%

Lending

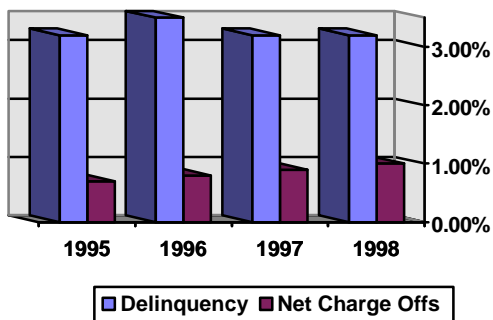
Total loans have decreased both in total dollars outstanding and in relationship to total assets in these smaller credit unions. As shown on page 2, all Region II credit unions experienced decreased lending, dropping to 61.5 percent of assets. The following chart shows the trends in total loans to assets.

Total Loans to Total Assets



Delinquency and loan losses in credit unions with assets of \$5 million and less are higher than those found in credit union in the Region. Delinquent loans to total loans in these credit unions are 3.2 percent at December 31, 1998 compared to 0.9 percent in all credit unions. The following chart depicts the

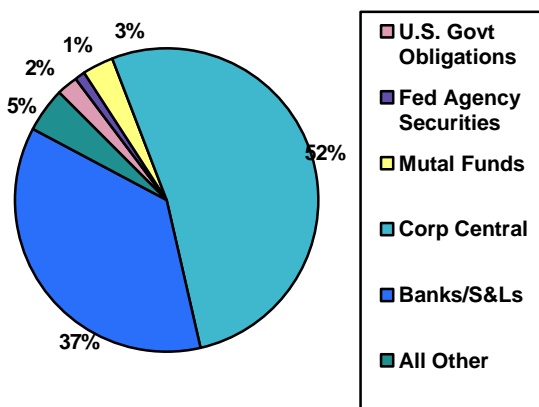
delinquency and loan loss trends in smaller credit unions.



Investments

Investments in smaller credit unions increased by 9.4 percent in 1998. Much of the increase was deposited in corporate central credit unions. The distribution of investments in these credit unions is reflected in the following chart.

Investment Portfolio Distribution

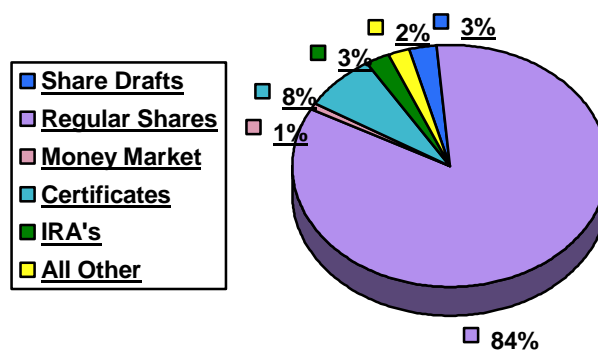


Liquidity in smaller credit unions, as a whole, should not be a concern. Nearly 87 percent of all investments have maturities of less than one year.

Savings

Total shares grew a modest .19 percent in 1998. This was an increase over the 1997 growth of .6 percent. The amount deposited in share draft accounts increased most rapidly. The following chart shows the share distribution in credit unions with assets \$5 million and less as of December 31, 1998.

Share Distribution



Income Trends

Region II credit unions with assets of \$5 million or less generated a return on average assets of .9 percent, which is equal to that of all of the Region's credit unions and all credit unions nationwide. Gross income of these credit unions declined by 10 basis points to 8.2 for 1998. The cost of funds also decreased by 10 basis points to 3.1 percent. Operating expenses remained stable at 3.7 percent. The earnings ratio trends for small credit unions in Region II are shown in the following table:

Earnings Trends in Credit Unions with Assets <\$5 Million

*	1995	1996	1997	1998
Gross Income	8.3	8.4	8.3	8.2
Cost of Funds	3.2	3.2	3.2	3.1
Net Margin	5.2	5.2	5.2	5.1
Operating Expenses	3.5	3.6	3.7	3.7
Provision for Loan Loss Expense	0.5	0.6	0.6	0.5
Return on Average Assets	1.1	1.0	0.9	0.9

* All ratios are calculated as a percentage of average assets.

Small Credit Union Preservation Program (SCUPP)

Region II examiners continued to work with credit union management and officials to improve the financial and operational condition of credit unions with less than \$5 million in total assets under the auspices of the Small Credit Union Preservation Program (SCUPP). This popular program continues to be quite successful.

Y2K

1998 was a very busy and challenging year for Region II staff as we worked to assure credit unions are prepared to operate in the year 2000.

Field staff spent 23,878 hours in Y2K contacts with credit unions. This does not capture the countless hours spent

by management and regional office staff in developing policy, reviewing examiner reports, and analyzing status reports. The Division of Supervision performed 128 Y2K quality control reviews during 1998.

Region II credit unions are making progress in becoming Y2K ready. As of December 31, 1998, of the 1,618 credit unions reporting the use of data processing systems, 330 report they are fully Y2K compliant. The remaining 1,288 are in various stages of completion. The following chart shows Region II credit union completion status compared to credit unions in all regions.

	Region II	All Regions
Renovating	345	2,869
	21%	28%
Testing	646	4,405
	40%	42%
Implementing	297	1,553
	19%	15%
Complete	330	1,526
	20%	15%

Region II staff members are closely monitoring credit union progress. One Y2K Letter of Understanding and Agreement (LUA) was issued in 1998. The deficiencies were addressed and the LUA has been removed.

Additionally, 23 credit unions were granted individual waivers, extending NCUA's Y2K milestone dates.

INSURANCE ISSUES

Region II State of the Region Report December 31, 1998

Charter Amendments

There were 624 federal credit unions with multiple group charters at the end of 1998. These credit unions, with total assets in excess of \$26.2 billion, continued to be effected throughout 1998 by a federal injunction restricting their ability to add new employer groups to their fields of membership. The NCUA Board adopted a new chartering and field of membership policy in accordance with the Credit Union Membership Access Act passed by Congress in August 1998. The new policy became effective January 1, 1999.

As a result of the moratorium on multiple group charter amendments, a number of credit unions sought authority to convert to community field's of membership. The Division of Insurance had 12 requests for conversion pending as of December 31, 1998. All chartering activity approved in 1998 is shown below:

Charter Activity for 1998

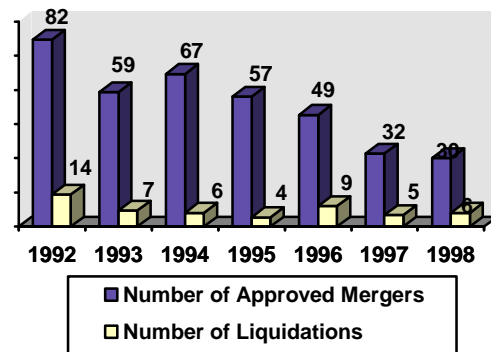
	<u># Approved</u>
Charter Amendments	96
New Federal Charters	2
New Federally-insured State Charters	1
Mergers - unassisted	30
Mergers - assisted	0
Purchase & Assumption	2
Voluntary Liquidations	2
Involuntary Liquidations	4
Conversion from State to Federal Charter	0

Conversion from Federal to State Charter	0
Conversion to a Community Charter	7

The Division of Insurance had four new charter requests pending as of December 31, 1998.

Mergers

Mergers continued to decline in 1998. The number of mergers fell for the fourth consecutive year from a high of 82 in 1992 to just 30 for 1998 as shown in the following graph:



However, merger activity is expected to increase in 1999 because mergers have been restricted by the moratorium which has been in place for the past two years.

Conclusion

Region II credit unions continued to exhibit the same positive financial and operational trends noted on a national level for the year ended December 31, 1998. Credit union management continued to focus on meeting members' needs while operating in a safe and sound manner.

Regional staff strives to provide effective and timely supervision.